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MINUTES
ECONOMIC POLICY COUNCIL

February 7, 1986
2:00 p.m.
Roosevelt Room

Attendees: Messrs. Baker, Baldrige, Yeutter, Wright, Whitfield, Kingon, McAllister, Svahn, Amstutz, Danzansky, Gibson, Gray, Hoffman, McMinn, McPherson, Moore, Mulford, Smart, Stucky, and Wallis, and Ms. Risque.

1. Report of the Working Group on Sugar

Mr. Amstutz stated that per capita U.S. sugar consumption, which was roughly 80 pounds per year in 1980, dropped to 63 pounds in 1985. He explained that there were two reasons for this: the high sugar price supports and the shift to other sweeteners.

Mr. Amstutz stated that last September, the Economic Policy Council faced a choice: set the sugar quota at 1 million tons, which would have balanced domestic and international supply with domestic demand, or maintain the quota at its current level, roughly 1.72 tons, which would help the CBI countries by permitting them to export more sugar to the U.S. He explained that the Council's decision to maintain the quota, prompted Congress through the 1985 Farm Bill to require that the Administration either reduce the quota by 425,000 tons or extend the quota three months.

Mr. Amstutz stated that the Working Group on Sugar had developed two sets of options for responding to the 1985 Farm Bill. The first set was options for mitigating the harmful effects of the quota on the CBI countries; the second set was proposals to reform the domestic sugar program. He stated that the Working Group on Sugar unanimously recommended that the Administration extend the quota, rather than reduce it, because the former would not create the contractual and shipping problems that the latter would.

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Mr. Amstutz briefly outlined the options developed by the Working Group:

1. Reallocate country sugar quotas;

2. Establish a compensation program of $102.5 million financed 50 percent in cash, 50 percent in-kind;

3. Establish a compensation program of $102.5 million financed fully by cash;

4. Purchase sugar from the CBI countries and reexport it with a subsidy to EC sugar markets; and

5. Provide in-kind assistance to the CBI countries through the Export Enhancement Program and the Commodity Credit Corporation.

He noted that each of these options had drawbacks. He stated that reallocating sugar quotas would create GATT problems, probably requiring the U.S. to offer compensation to nations harmed by the reallocation. He noted that the options requiring dollar funding were unlikely to be enacted because the new budgetary climate created by the Gramm-Rudman Act. Mr. Amstutz suggested an additional option might be to do nothing, and rely on other initiatives in areas such as textiles to assist the CBI countries.

The Council explored each of the options. Secretary Baker noted that reallocating quotas might harm several debtor nations, including Brazil and Argentina. He suggested that an additional option reallocating quotas for countries with per capita income greater than $2,250 be developed. Several members of the Council expressed reservations about the precedent of establishing a program formally compensating foreign countries for harmful legislative or administrative actions.

Mr. Wallis noted that relying on textiles or commodity assistance to assist the CBI countries created some difficulties for the CBI domestic economies. He noted that labor may not shift as quickly from agriculture to manufacturing as we might suppose. He also noted that commodity assistance might displace domestic agricultural production.

Mr. Amstutz, in response to a question, also briefly discussed the so-called Savannah proposal. He stated that demand for sugar in the U.S. is very inelastic, and the reduction in the U.S. sugar price resulting from the Savannah proposal would probably not result in increased imports from the CBI nations.

Decision

Secretary Baker proposed that the Economic Policy Council prepare for the President's consideration three options for mitigating the effects of the sugar quota on the CBI countries.

1. Do nothing and rely on proposed textile initiatives to help the CBI countries;

2. Provide in-kind assistance through the Export Enhancement Program and the Commodity Credit Corporation.

3. Reallocate country quotas either according to countries with per capita income of: (a) $1,150 or less or (b) $2,250 or less.